



Keys to Good Disclosure: A Municipal Securities Disclosure Symposium

A Banker's Perspective on Primary Market Disclosure

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The Underwriter's Role in the Municipal Market

❑ Intermediaries between Issuers and Investors

- Over \$360 Billion of Long Term Bonds issued in primary market during 2004**
- Over 13,000 financings (Official Statements) completed in 2004**
- Over \$2 trillion of Debt in Total Market**

Investment Bankers' Role in the Disclosure Process

- ❑ Bankers participate in negotiated sales

- Two new sets of fresh eyes (Bankers and Underwriters' Counsel)
- Strong proponents of due diligence at the highest levels of Agency
- Use prior experience and expertise

What is an Underwriter's Disclosure Obligation?

☐ Securities and Exchange Commission (SEC)

- Implied recommendation by participating in a primary market offering (as to truthfulness and completeness of key representations)

☐ MSRB rules – G17

- Anti-fraud prohibitions and duty to deal fairly
- Affirmative obligation to disclose material facts

Why is Good Disclosure Important to Bankers?

- ☐ To ensure the continued vitality of our business
- ☐ To ensure trust in the market
- ☐ To protect the well-being and integrity of our firms

What Does a Banker Want in the Process of Preparing the Disclosure Document?

☐ Controlled and deliberate process

- Time to review (the more eyes, the better)
- Up the chain of command

☐ Collaboration and communication

- Circulate to various parties within agency & outside consultants
- Treat as non-routine

☐ Empowerment / decision making

- Key contacts with authorization
- Fact checking

What do the Parties in a Transaction Want?

- ❑ On the margins, the issuer and investor can have conflicting interests

| Issuer | Buyers |
|--|---|
| Loan at the best possible price | Rate of return at the optimal value for the expected risk |
| Minor to modest initial administrative duties and costs | Relevant information needed to make an informed decision |
| Minor to modest other ancillary costs (no threat of lawsuit, etc...) | No interruption in expected return on investment |

Good Disclosure is Part “Science” and Part “Art”

“Science”

| Technical Data | Fundamental Data |
|----------------|---------------------|
| Coupons | CAFRs |
| Dated dates | Budget info |
| Call features | Feasibility reports |
| Tax status | Appraisals |

Good Disclosure is Part “Science” and Part “Art”

“Art”

Good judgment is more important than a fixed set of rules

| Situations | Other Factors/ Nuances |
|---|---|
| One year removed from the release of last audited CAFR – mid-year financials | No Substantial Change Letter from Auditors Change in auditors from prior year |
| Comments by elected leaders (Mayor, City Councilpersons, City Attorneys, etc...) | Introduction of legislation Ballot measure (break up of City) Statements by candidates (break up school district) |
| Derivative exposure – interest rate swap that, if terminated, would result in significant payment by the agency to counterparty | Included in CAFR Included in body of Official Statement |

A Banker's Road to Good Judgment

- ☐ Use past experience from other clients
- ☐ Consult with Underwriters on our desk
- ☐ Consult with investor community on disclosure issues (desk and banker)
- ☐ Receive advice by internal counsel as well as underwriters' counsel